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MEATPACKERS' COSTS FOR FRESH BEEF AND PORK

Marketing Economics Division
Economic Research Service
U.S. DEPARTMENT OF AGRICULTURE

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MEATPACKERS' COSTS FOR FRESH BEEF AND PORK 1/

How much do meatpackers' services cost for Choice beef and fresh pork? How are costs of packers' services allocated among labor, packaging materials, grading services, buying and selling, and operating overhead? How do costs and services for beef compare with those for pork? And how do meatpackers' costs compare with their price spreads for beef and pork?

Recent surveys of costs of a selected group of commercial-scale meatpackers provided some answers to these questions. Reporting packers were located in the Eastern and Western Cornbelt and in the Southeast and the Southwest. Records used in the beef cost analysis were from packers slaughtering mostly steers and heifers. Data from packers slaughtering medium-weight hogs and cutting hog carcases into fresh pork were included in the pork analysis. Non-reporting packers may have incurred different selling, shipping and handling costs, depending on the distances between their plants and major distribution centers, differing volumes of output, and the method of selling.

Cost of Function

For packers surveyed, costs of buying cattle (not including cost of cattle) averaged about 0.12 cent per wholesale pound, and costs of selling meat to wholesale and retail customers average 0.16 to 0.19 cent during September 1963-February 1964 (table 18). Buying hogs cost about 0.16 to 0.18 cent per wholesale pound, and selling pork cuts to wholesale and retail customers about 0.33 to 0.35 cent (table 18). More beef than pork was sold in carcass form, and the larger weight per beef item sold reduced selling costs per pound.

Costs of dressing, packaging, and loading averaged about 2.8 to 2.9 cents per wholesale pound for fresh beef compared with about 3.2 to 3.4 cents for fresh pork. Shipping costs from packing plants to wholesale distributors averaged 0.69 to 0.76 cent per wholesale pound of dressed beef and 0.31 cent per pound of pork. Local delivery to retailers added 0.31 to 0.37 cent per wholesale pound to packer costs for beef and 0.30 to 0.34 cent per pound for pork.

Labor, Packaging, and Overhead Costs

For reporting packers, labor costs in killing and dressing were slightly higher for pork than for beef during September 1963-February 1964 (table 19). Dressing room operations differed somewhat: For beef, the hide was removed; for pork, the carcass was scalded, dehaired, and singed. Beef hides were handled with relatively low labor costs. Order filling and loading labor costs were lower for pork than for beef. Total labor costs averaged 1.2 cents per wholesale pound for beef and about 1.9 cents per pound for pork. Total labor costs were lower for beef than for pork mainly because cutting costs were much larger for pork than for beef. Most beef is sold in carcass form, and most fresh pork in about a dozen wholesale cuts. (The small cutting costs for beef are included in killing room or shipping-cooler costs.)

Packaging costs were higher for pork than for beef, because there were more individual cuts of pork to be wrapped and packed. On the other hand, fixed plant and administrative expenses averaged about one-fourth higher for beef than for pork.

Differences in labor-time used and average labor costs per man-hour accounted for different labor costs for beef and pork. Plant records showed that for killing room operations, fresh beef required only slightly less labor per wholesale pound than fresh pork

1/ Prepared by Donald B. Agnew, agricultural economist, Marketing Economics Division, Economic Research Service.

Table 18.--Average costs of dressing and shipping fresh beef and pork per wholesale pound, selected packers, by function, fall and winter, 1963-64

Function	Beef		Pork	
	Sept.-Nov. 1963	Dec. 1963-Feb. 1964	Sept.-Nov. 1963	Dec. 1963-Feb. 1964
	Cents	Cents	Cents	Cents
Buying cattle and hogs	0.12	0.11	0.16	0.18
Dressing, packaging 1/	2.78	2.87	3.24	3.42
Shipping dressed meat	.69	.76	.31	.31
Selling	.16	.19	.33	.35
Total	3.75	3.93	4.04	4.26
Local delivery to retailers	.31	.37	.30	.34
Total costs	4.06	4.30	4.34	4.60

1/ Includes grading for beef.

Table 19.--Labor, packaging, and fixed plant and administrative costs for fresh beef and pork per wholesale pound, selected packers, fall and winter, 1963-64

Operation	Beef		Pork	
	Sept.-Nov. 1963	Dec. 1963-Feb. 1964	Sept.-Nov. 1963	Dec. 1963-Feb. 1964
	Cents	Cents	Cents	Cents
Labor costs:				
Killing room 1/	0.77	0.74	0.83	0.76
Hide cellar	.09	.09	---	---
Cutting cost:				
Wholesale cuts	---	---	.71	.67
Additional trim	---	---	.07	.10
Total			.78	.77
Order filling and loading	.40	.39	.28	.33
Total	1.26	1.22	1.89	1.86
Packaging 2/	.12	.12	.30	.30
Fixed plant and administrative costs	1.40	1.53	1.05	1.26

1/ Includes offal and chill cooler.
2/ Includes grading for beef.

(table 20). However, labor cost per man-hour in killing room operations averaged about one-fifth higher for beef than for pork.

Packer Costs and Spreads

Most of the packers surveyed reported price-spread data as well as operating costs. Gross spreads (difference between returns to packers per 100 pounds of meat and byproducts (wholesale weight) and the costs of livestock and purchased carcasses) averaged higher for pork than for beef during both reporting periods (table 21). Despite considerably higher operating costs, fresh pork operations returned higher partial net margins per wholesale pound (margins before payment of income taxes, interest, and returns to investment) than did beef operations. Partial net margins per wholesale pound for these reporting packers decreased between fall and winter.

Costs Per Retail Pound

Because of cutting losses in preparing carcasses for retail, costs of dressing and shipping fresh beef per retail pound usually average about one-third higher than the same costs per wholesale pound. However, costs per retail pound of pork were only fractionally higher than the same costs on a wholesale pound basis. Cutting losses averaged about 22 to 25 percent for beef and only 2 to 6 percent for pork. Further, much of the pork sold by retailers is cured and smoked, sliced, perhaps pre-cooked, or processed into sausage--all at additional costs.

Packers' costs of dressing and shipping beef on an equivalent retail pound basis during September 1963-February 1964 were:

	Cents per retail pound
Buying cattle	0.15 - 0.16
Selling beef to wholesale and retail customers	.21 - .25
Dressing, packaging and loading	3.71 - 3.83
Shipping from plant to wholesale markets	.92 - 1.01
Local delivery	.41 - .49

Costs of meatpacker services are a small proportion of the retail price of both beef and fresh pork--about 5 percent and 8 percent, respectively, of the U.S. average retail prices of beef and pork for the reporting months.

ERS surveys continue to show considerable variation in costs among reporting packers for both beef and pork operations. 2/ Differences in labor cost among plants were attributable partly to local and regional wage-rate differentials, partly to varying efficiency in use of labor. These factors were partially offsetting in their effect on total labor cost. Labor costs in some plants ranged as low as one-third less than the average for all plants and some as much as one-half above the average. In recent years, many new meatpacking plants have been built and much old, inefficient equipment has been replaced. This has helped packers generally to keep their costs low.

2/ See Meatpackers' Costs and Spreads for Beef, ERS-135, reprinted from the Marketing and Transportation Situation, August 1963; and Meatpackers' Costs for Slaughtering Hogs and Distributing Fresh Pork, ERS-160, reprinted from the Marketing and Transportation Situation, February 1964.

Table 20.--Labor used and cost per man-hour, selected packers, per 100 pounds wholesale beef and pork, fall and winter, 1963-64

Item	Beef		Pork	
	Sept.-Nov. 1963	Dec. 1963-Feb. 1964	Sept.-Nov. 1963	Dec. 1963-Feb. 1964
	Man-hours	Man-hours	Man-hours	Man-hours
Labor used per 100 pounds of wholesale product:				
Killing room 1/	0.21	0.20	0.23	0.22
Hide cellar	.03	.03	---	---
Cutting room	---	---	.20	.19
Order filling 2/	.11	.12	---	---
	Dollars	Dollars	Dollars	Dollars
Labor cost per man-hour:				
Killing room 1/	4.05	3.88	3.28	3.34
Hide cellar	2.51	2.62	---	---
Cutting room	---	---	3.21	3.32
Order filling 2/	3.30	3.24	---	---

1/ Includes offal and chill cooler.
2/ Shipping cooler.

Table 21.--Costs and spreads for fresh beef and pork per 100 pounds of wholesale products, selected packers, fall and winter, 1963-64

Item	Beef		Pork	
	Sept.-Nov. 1963	Dec. 1963-Feb. 1964	Sept.-Nov. 1963	Dec. 1963-Feb. 1964
	Dollars	Dollars	Dollars	Dollars
Returns to packers 1/	40.59	38.68	31.87	31.13
Costs of purchased livestock and carcasses	36.72	34.65	26.25	25.31
Packers' spread	3.87	4.03	5.62	5.82
Operating costs and delivery	2.61	2.99	4.34	4.60
Partial net margin 2/	1.26	1.04	1.28	1.22

1/ Includes at-plant value for byproducts before processing.
2/ Before payment of interest, taxes and returns to investment.